Great Lakes Pilotage Authority

Administration de pilotage des Grands Lacs

2014 Second Quarter Financial Report

For the period ended June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the second quarter ended June 30, 2014 for Great Lakes Pilotage Authority (the Authority). This discussion should be read with the unaudited interim financial statements for the period ended June 30, 2014, which have been prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for crown Corporations" and Internal Accounting Standard 34 – *Interim Financial Reporting* (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual financial statements and annual report for the year ended December 31, 2013. Financial results in the MD&A are rounded to the nearest thousand.

Management is responsible for the information presented in the unaudited interim financial statements and the MD&A. All references to "our" or "we" are references to management of the Authority. The Board of Directors, on the recommendation from its Audit Committee, approved the content of this MD&A and the unaudited interim financial statements.

MATERIALITY

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of financial information.

FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that reflect management's expectations regarding the Authority's objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans", "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Authority expects.

DESCRIPTION OF THE OPERATIONS AND OBJECTIVES

Pursuant to the *Pilotage Act,* the Authority has a mandate to operate in the interest of safety, a marine pilotage in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock. Services are provided through the performance of pilotage assignments on those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority.

The Authority must co-ordinate its efforts and operations with a number of organizations such as The St. Lawrence Seaway Management Corporation and the United States Seaway Development Corporation, who operates the lock facilities, and maintain traffic control systems within the Region; the Canadian Coast Guard, who provides aid to navigation and the United States Coast Guard, who are responsible for the United States pilotage matters in international waters.

The Authority has the responsibility to provide the pilotage services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user. It must also be responsive to the Government's environmental, social and economic policies.

SIGNIFICANT CHANGES AND BUSINESS DEVELOPMENTS

The winter was one of the coldest in recent history. The navigation season opened in the Welland Canal on March 28th, 2014 and on March 31, 2014 in St. Lambert. This was one week later than 2013, for which the season opened on March 22nd. The first vessel under compulsory pilotage was serviced on March 31, 2014. The delay on opening the 2014 season resulted from the extreme ice conditions. This level of ice conditions that was experienced in early 2014 had not been seen on the St. Lawrence River and in the Great Lakes for more than the last 15 years.

The April 2014 traffic movements were dependent on the ice management. One way traffic and daylight navigation were respected and under double pilotage. Pilot boat service was also impacted due to ice fields drifting, and as such, forcing pilots to be over carried. These conditions had significant implications on the number of assignments at the beginning of the second quarter.

TRAFFIC

Although the Authority experienced a slow start to the 2014 navigation season in March 2014, the current level of service now shows an increase over budget as well as over the previous year's quarter.

# of assignments	Actual / Forecast 2014	Budget 2014	Var %	Actual 2013	Var %
YTD *	2,168	2,150	0.8%	2,079	4.3%
YTG	4,555	3,950	15.3%	4,324	5.3%
TOTAL	**6,723**	**6,100**	**5.0%**	**6,403**	**0.0%**

As the ice conditions improved at the end of April 2014, we realized heavy traffic as grain movements out of the Great Lakes were on the rise due to the record 2013 grain crop. In addition, we experienced similar traffic to 2013 due to the increase in steel imports and due to the economic improvements being reported around the globe.

* The Authority operates in the St. Lawrence Seaway which usually closes in late December due to winter and re-opens in late March of each year.

FINANCIAL HIGHLIGHTS

For the 3 months ended June 30, 2014, the Authority posted a gain of $ 1,354,000, compared to $ 658,000 in the same period in 2013. The Authority's second quarter results were positively affected by a greater number of assignments in April due to the delay of the start of the navigation season and a 4.3% increase in traffic. The following table presents the Corporations performance for the second quarter of 2014, compared to the same period in the prior year.

	3 months ended 30-Jun 2014	3 months ended 30-Jun 2013 (restated)[1]	Change	%	Year to date 30-Jun 2014	Year to date 30-Jun 2013 (restated)[1]	Change	%	Explanation of change
Revenue	$7,968	$6,238	$1,730	27.7%	$7,999	$6,978	$1,021	14.6%	Increases were driven by the 2.5% increase in the tariffs as approved by the Governor in Council as well as a 4.3% increase in assignments and additional revenue for delays and over carry due to severe ice conditions in the month of April 2014.
Operating costs	6,242	5,244	(998)	-19.0%	6,801	6,047	(754)	-12.5%	Increases were largely driven by the high levels of overtime due to double pilotage and to support the high levels of delays and over carried during the extreme ice conditions in April 2014 as well as the increase in traffic in May and June 2014. This was partially offset by pilot wage savings associated to the 9 day delay to the start of the navigation season.
Administrative costs	372	336	(36)	-10.7%	716	656	(60)	-9.1%	There is no single cost that is materially different from the 2013 results.
Profit (loss)	$1,354	$ 658	$ 696	106.0%	$ 482	$ 275	$ 207	68.0%	
Other comprehensive income (loss)		-				-	-		
Comprehensive income (loss)	**$1,354**	**$ 658**	$ 696	**106.0%**	**$482**	**$ 275**	**$ 207**	**68.0%**	

1. *See Note 3 – Application of International Financial Reporting Standards of the unaudited interim second quarter financial statements ended June 30, 2014.*

Cash flow

The Authority continued to improve its cash flow position in the second quarter as it is posting a cash balance of $ 351,000 in comparison to a $ (298,000) bank indebtedness at the end of the second quarter of 2013. The Authority has a $ 3,000,000 line of credit at its disposal. Based on the current financial forecast, The Authority only used a maximum of $202,000 of its line of credit for 14 days during the period of April 24th to May 13th, 2014. This is an improvement of the Authority's 2013 cash flow position when it used up to a maximum of $1,892,000 of its credit limit for 90 days between February 5th and June 18th, 2013.

Lise Ouellet, Accounts Payable and Receivable Clerk

2014 INITIATIVES

Training

The Authority continued to invest in the Pilot Quality Assurance program. As part of the pilot simulation training and evaluation program in January 2014, the Authority modified its training program to include a new module on bridge resource management along with its previous quality of service and its maneuvering skills modules.

The Authority is committed to its long term training program which ensures that all pilots maintain their skills to date. All pilots are required to participate in this training program with a 5 year period.

In March 2014, the Authority upgraded the pilots' portable piloting unit (PPU) software. In addition to the upgrade, PPU electronic charting system refresher sessions were provided to all pilots as to enhance the efficient and effective use of these piloting tools.

Investment in systems

As part of its 2014-2018 Corporate Plan, the Authority had planned to initiate the migration initiative of its dispatching and billing system to a new platform. Along with the migration, the Authority intends to implement new functionality to meet its changing business needs and to allow its administration to work more efficiently. Due to other business priority and a revised scope of the migration, this initiative has been delayed a full year.

HUMAN RESOURCES

The pilot numbers for 2014 are fairly consistent with those of 2013. Management believes the pilot levels are adequate to meet the forecasted 2014 traffic levels.

LABOUR RELATIONS

Corporation of Professional Great Lakes Pilots, Corporation of the Upper St. Lawrence Pilots, The Pilots' Corporation – Lake Ontario and Harbours, *Corporation des Pilotes du Fleuve et de la Voie Maritime du Saint-Laurent*

The Authority is in its third-last year of all four agreements which expire on March 31st, 2017. The changes introduced in the agreements brought the Authority's cost structure more in line with economic realities it is facing as well as ensured continued pilotage services without interruptions.

Julie Beaulieu, Billing Clerk

Public Service Alliance of Canada (PSAC)

The agreement is valid and expires on June 30th, 2016. PSAC represents the dispatchers and clerical office staff. There were no developments in labour relations activities in the second quarter of 2014.

INTERNAL CONTROLS AND PROCEDURES

During the second quarter of 2014, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Authority's internal controls over financial reporting.

RISKS AND RISK MANAGEMENT

The Authority management considers risks and opportunities at all levels of decision making, and it has implemented an enterprise risk management (ERM) approach. A description of the Authority's risks is provided in the Governance Review section of the 2013 Annual Report. Annually, the Board of Directors and Senior Management identify and review significant risks as to develop appropriate strategies to address and mitigate the identified risks.

It is of management's opinion that there are no changes to the strategic or to the operational risks in the second quarter or anticipated for the remainder of 2014 that could have a material impact on the Authority's finances, reputation and operations.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Contractual obligations and commitments were explained in Note 15 – *Commitments* of the 2013 Audited Financial Statements. There are no material changes to the contractual obligations and commitments during the second quarter of 2014.

RELATED PARTY TRANSACTIONS

The Authority has a variety of transactions with related parties in the normal course of business. These transactions are not materially different from what was reported in Note 14 – *Related Party Transactions* of the 2013 Audited Financial Statements.

CONTINGENT LIABILITIES

It is of management's opinion that there are no contingent liabilities in the second quarter or anticipated for the remainder of 2014 that could have a material impact on the Authority's finances.

SUBSEQUENT EVENTS

It is of management's opinion that there are no material events subsequent to the end of the second quarter that have not been reflected in the quarterly statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates and judgments are described in Note 5 – *Critical accounting estimates and judgments* of the unaudited interim second quarter financial statements ended June 30, 2014. It is of management's opinion that there are no changes in underlying its estimates used in the preparation of the second quarter financial statements that have a significant impact on the second quarter results.

ACCOUNTING PRONOUNCEMENTS

The Authority's unaudited interim second quarter financial statements ended June 30, 2014 includes a complete discussion of the impact on the Authority of pronouncements issued by the Internal Accounting Standards Board (IASB) or the IFRS Interpretations Committee that were mandatory for accounting periods beginning on January 1, 2014. This impact along with discussions on proposed standards not yet in effect are described in Note 3 – *Application of Internal Financial Reporting Standards* of the unaudited interim second quarter financial statements ended June 30, 2014.

APPROPRIATIONS

The Authority is prohibited from receiving Parliamentary appropriations as per section 36.01 of the Pilotage Act. The Authority has been financially self-sufficient since inception in 1972 and regularly endorses a strategy that will ensure this strategic goal remains among the highest priority.

GREAT LAKES PILOTAGE AUTHORITY

202 Pitt Street, 2nd floor

Cornwall, Ontario K6H 5R9

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Six months to June 30, 2014

Statement of Management Responsibility:

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada's "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting", and for such internal controls as management determines is necessary to enable the preparation of the quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of the operations and cash flows of the Corporation, as at the date of and for the periods presented in the quarterly financial statements.

Robert Lemire, CPA, CA
Chief Executive Officer

Stéphane Bissonnette, CPA, CA
Chief Financial Officer

Cornwall, Ontario
July 22, 2014

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position
(in thousands)

Unaudited

	June 30, 2014	December 31, 2013
ASSETS		
Current		
Cash and cash equivalents	$ 351	$ 2,305
Investments	-	2,156
Accounts receivable	3,465	4,030
Prepaid Expenses	4	34
	3,820	8,525
Non Current		
Property and equipment	1,517	497
Intangible asset	876	212
	$ 4,461	$ 9,234
LIABILITIES		
Current		
Accrued salaries and benefits	$ 2,028	$ 6,921
Other accounts payable and accrued charges	283	408
Employee benefits	-	265
	2,311	7,594
Non-current		
Employee benefits	3,432	3,404
	5,743	10,998
EQUITY		
Accumulated deficit	(1,282)	(1,764)
	$ 4,461	$ 9,234

The accompanying notes are an integral part of theses financial statements.

GREAT LAKES PILOTAGE AUTHORITY

Statement of Operations and Comprehensive Income
(in thousands)

Unaudited

	3 months ended June 30, 2014	Year to date June 30, 2014	3 months ended June 30, 2013 (Restated-Note 3)	Year to date June 30, 2013 (Restated-Note 3)
Revenues				
Pilotage charges	$ 7,935	$ 7,958	$ 6,178	$ 6,911
Dispatching and Pilot boat income	24	24	20	19
Interest and other income	9	17	40	48
	7,968	7,999	6,238	6,978
Expenses				
Pilots' salaries and benefits	4,755	4,929	3,873	4,282
Transportation and travel	733	826	634	732
Operation staff salaries and benefits	333	421	293	395
Pilot boat services	305	305	288	302
Administration staff salaries and benefits	217	483	200	425
Professional and special services	66	80	86	111
Amortization and depreciation	59	119	59	117
Utilities, material and supplies	48	88	51	104
Rentals	25	45	29	53
Pilot laptop and navigation software	25	50	25	50
Purchased dispatching services	19	19	19	19
Communications	22	36	12	27
Repairs and maintenance	5	13	7	14
Financing costs and other charges	2	5	4	8
Pilot training costs	-	98	-	64
	6,614	7,517	5,580	6,703
Profit (loss) for the period	$ 1,354	$ 482	$ 658	$ 275
Other Comprehensive Income				
Items that will not be reclassified to net results				
Actuarial gain (loss) on employee benefits	-	-	-	-
Comprehensive income (loss) for the period	$ 1,354	$ 482	$ 658	$ 275

The accompanying notes are an integral part of theses financial statements.

GREAT LAKES PILOTAGE AUTHORITY

Statement of Changes in Equity
(in thousands)

Unaudited

	3 months ended June 30, 2014	Year to date June 30, 2014	3 months ended June 30, 2013 (Restated-Note 3)	Year to date June 30, 2013 (Restated-Note 3)
Accumulated deficit, beginning of period	$ (2,636)	$ (1,764)	$ (3,047)	$ (2,664)
Profit (loss) for the period	1,354	482	658	275
Other Comprehensive income (loss) for the period	-	-	-	-
Total comprehensive income (loss) for the period	1,354	482	658	275
Accumulated deficit, end of period	$ (1,282)	$ (1,282)	$ (2,389)	$ (2,389)

The accompanying notes are an integral part of theses financial statements.

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows
(in thousands)

Unaudited

	3 months ended June 30, 2014	Year to date June 30, 2014	3 months ended June 30, 2013 (Restated-Note 3)	Year to date June 30, 2013 (Restated-Note 3)
Operating activities				
Profit (loss) for the period	$ 1,354	$ 482	$ 658	$ 275
Items not affecting cash:				
Employee benefits	(148)	(238)	23	(35)
Amortization and depreciation	59	119	58	117
Changes in non-cash working capital items:				
Decrease (Increase) in accounts receivables	(3,272)	565	(1,961)	161
Decrease (Increase) in prepaid expenses advances	488	29	-	-
Increase (decrease) in accrued salaries and benefits	1,363	(4,893)	1,420	(3,792)
Increase (decrease) in other accounts payable and accrued charges	205	(124)	(19)	(290)
Cash provided by operating activities	49	(4,060)	179	(3,564)
Investing activities				
Disposal of investments	-	2,156	-	3,003
Acquisition of property and equipment and intangible assets	(4)	(50)	(1)	(3)
Cash provided (used) in investing activities	(4)	2,106	(1)	3,000
Cash and cash equivalents:				
Net increase (decrease) in cash during the period	$ 45	$ (1,954)	$ 178	$ (564)
Cash (bank indebtedness), beginning of period	306	2,305	(476)	266
Cash (bank indebtedness), end of period	351	$ 351	$ (298)	$ (298)
Represented by:				
Cash (bank overdraft)	$ 351	$ 351	$ (298)	$ (298)
Cash equivalents	-	-	-	-
Supplemental information				
Interest paid during the period	$ -	$ -	$ 2	$ 3

The accompanying notes are an integral part of theses financial statements.

Notes to the Unaudited Financial Statements

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. (The Authority) was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the *Canada Marine Act*, which received Royal Assent on June 11, 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters.

The Authority is exempt from any income taxes.

The principal registered address and records office of the Authority are located at 202 Pitt Street, 2nd floor, Cornwall, Ontario.

2. Basis of presentation

(a) Declaration of conformity

The Authority has prepared its interim financial statements in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS34 *Interim Financial Reporting*. As permitted under this standard, these interim financial statements do not include all of the financial statement disclosures required for annual financial statements, and should be read in conjunction with the Authority's audited financial statements for its fiscal year ended December 31, 2013.

The Authority's Board has approved for issue these interim financial statements on July 22, 2014.

(b) Basis of measurement

The interim financial statements have been prepared on a historical cost basis, except as permitted by IFRS and as otherwise indicated within these notes.

(c) Seasonality

The volume of the Authority's operations has historically varied during the year, with the highest demand for services experience during the fourth quarter of each year. For the first quarter of the year, the navigation season of the St-Lawrence Seaway is closed and only re-opens at the end of March. The 2013 navigation season ended on January 1st, 2014 and the 2014 navigation season started on March 31st, 2014 (the 2012 navigation season end on December 27th, 2012 and the 2013 navigation season started on March 22nd, 2013).

3. Application of International Financial Reporting Standards

Change in accounting policy

The Authority has revised its accounting policy for the timing of pilot bonus recognition in its interim financial statement as to comply with IAS 19 - *Employee Benefits*. IAS 19 specifies that expected cost of bonus payments are to be recognized only when the entity has a present legal obligation to make such payments. As at June 30, there is no legal obligation to make such payments. The change in accounting policy was applied retroactively to these quarterly financial statements. As such, the comparative information presented as at June 30, 2013 has been restated.

The impact of this accounting policy change on the comparative figures is as follows:

Statement of Operations and Comprehensive Income

For the 3 months ended June 30, 2013	As previously reported	Change	Restated
Pilot salaries and benefits	$ 4,315	$ (442)	$ 3,873
Profit (Loss)	**$ 216**	**$ 442**	**$ 658**

For the 6 months ended June 30, 2014	As previously reported	Change	Restated
Pilot salaries and benefits	$ 4,778	$ (496)	$ 4,282
Profit (Loss)	**$ (221)**	**$ 496**	**$ 275**

New standards, amendments and interpretations effective January 1, 2014

In the second quarter, there were no amendments and interpretations issued by IASB and the Interpretations Committee that would have a possible effect on the Authority in the future.

Issued but not yet effective

IFRS 9 – *Financial Instruments* - In November 2009, the IASB issued IFRS 9 with further revisions in October 2010 to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The Authority continues to evaluate the potential impact of IFRS 9 on its financial statements. The effective date is not yet determined.

4. Significant accounting policies

The significant accounting policies are as follows:

(a) Cash and cash equivalents

Cash equivalents represent short-term, highly liquid investments and consist of Canadian dollar deposits held by a Canadian chartered bank.

(b) Investments

The objective of the Authority's investment policy is to maximize the investment rate of return in a Government of Canada guaranteed bond portfolio.

The Authority has elected to designate all investments as fair value through profit and loss (FVTPL). Consequently, investments are initially recorded at fair value, and subsequently re-measured to fair value at

each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

Realized gains and losses from the interest received and from sale of investments are recognized in interest and other income in the period realized. Unrealized gains and losses from all other fluctuations in fair value are recognized in interest and other income in the period in which they occur.

(c) Property and equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Asset category	Estimated useful life
Buildings	20 years
Furniture	10 years
Leasehold improvements	10 years
Communication and computer equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each year end and adjusted for the future.

(d) Intangible asset

Software is recorded at cost. Amortization of software is calculated on a straight-line basis and is based on the estimated useful life of the asset as follows:

Asset category	Estimated useful life
Software	5 years

(e) Pension benefits

Substantially all of the employees of the Authority are covered by the public service pension plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

(f) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of the severance benefits earned by employees is determined annually on an actuarial basis using the projected unit credit method prorated with years of credited service and management's best estimate assumptions, such as the discount rate, rate of salary increase, inflation, retirement ages of employees and other factors. The actuarial gain (loss) is recognized in other comprehensive income and cannot be reclassified to profit in the future.

The benefit costs are determined using the cost of employee benefits for the current year's service, the interest cost on the accrued benefit obligation and net actuarial gain or loss for the year.

(g) Retirees' death benefits

Former employees who retired prior to 1999 have been granted a death benefit. The liability amount for this benefit is determined annually on an actuarial basis using the projected unit credit method. The actuarial gain (loss) is recognized in other comprehensive income and cannot be reclassified to profit in the future.

The annual cost of this benefit comprises the amount of benefits paid in the year plus the change in the actuarial liability during the year, reduced by a retiree contribution.

(h) Employee benefits

The Authority's short-term employee benefits which include compensated absences, are evaluated on an undiscounted basis and are expensed as the related services are rendered.

(i) Effects of changes in foreign exchange rate

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the statement of financial position date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at monthly average exchange rates. All exchange gains and losses are included under interest and other income in profit and loss for the year.

(j) Revenue recognition

Revenues earned from pilotage charges, dispatching and pilot boat income are recognized as services are rendered. Interest and other income are recognized using the effective interest method as they are earned.

(k) Financial assets

Financial assets are classified into one of four categories:

- Fair value through profit or loss (FVTPL);
- Held-to-maturity (HTM);
- Available for sale (AFS); and,
- Loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. The Authority has financial assets in two categories, FVTPL and loans and receivables.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future;
- It is a part of an identified portfolio of financial instruments that the Authority manages and has an actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Cash, cash equivalents and investments are classified as FVTPL. Measuring these investments at fair value provides better alignment between the accounting results and how the portfolio is managed.

Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Authority does not enter into derivative financial instruments for trading or speculative purposes.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the fair value and subsequently carried at amortized using the effective interest method less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified.

Loans and receivables include accounts receivable. Due to the short-term nature of accounts receivable, their carrying values are deemed to approximate their fair values.

(iii) *Effective interest method*

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

(iv) Impairment of financial assets other than those measured at fair value

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivables, is directly reduced by the impairment loss. The carrying amount of accounts receivables is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously

recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the resulting carrying amount of the financial asset cannot exceed what its amortized cost would have otherwise been at that date had the previous impairment loss never been recognized in the first place.

(v) Derecognition of financial assets

A financial asset is derecognized when:

- The contractual right to the asset's cash flows expire; or
- If the Authority transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(l) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. All of the Authority financial liabilities are classified as other financial liabilities.

(i) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Authority has classified other accounts payable and accrued charges and accrued salaries and benefits as other financial liabilities. Due to the short-term nature of these accounts, their carrying values are deemed to approximate their fair values.

(ii) Derecognition of financial liabilities

The Authority derecognizes financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or they expire.

(m) Exchange of services

Exchanges of services are recorded at the estimated fair value of the goods or services received. Revenues from exchange of services are recognized when the related services are rendered. Expenses resulting from exchange of services are recognized during the period when the related goods or services are provided by third parties.

(n) Lease Payments

All Authority leases and leased assets are not recognized on the statement of financial position since virtually all the risks and benefits associated with ownership of leased assets are not passed to the Authority.

Payments under operating leases are expensed on a straight line over the term of the lease.

5. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and

revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal year are discussed as follows.

Cash and cash equivalents

Cash equivalents represent short-term, highly liquid investments and consist of Canadian dollar deposits held by a Canadian chartered bank.

(a) Significant accounting estimates

Significant accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next year.

Employee severance and retirees death benefits

The Authority engages a third party actuary to assess the fair value of its employee severance benefits and the retirees' death benefit. The Authority assesses these obligations at December 31 each year.

Amortization and Depreciation rates

Refer to Note 4 (c) and 4 (d) for the estimated maximum useful lives of property and equipment and intangible assets.

(a) Significant accounting judgments

Significant accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Management has not made any significant accounting judgments in the preparation of these interim quarterly financial statements.